Great Kei Local Municipality
(Registration number EC123)
Annual Financial Statements
for the year ended 30 June 2018

General Information

Nature of business and principal activities	Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998) The municipality's operations are governed by: -Municipal Finance Management Act no. 56 of 2003 -Municipal Structures Act no.117 of 1998 -Municipal Systems Act no. 32 of 2000 and various other acts and regulations.
List of councillors	
Mayor	Tshetsha L.D (Speaker)
Chief Whip	Ndabambi-Gavumente L
Councillors	Gqomoroshe T
	Jacobs SM
	Nzuzo Z
	Mevana NV
	Mgema NP
	Khantshashe N
	Mhlontlo L
	Ndoro W
	Ndolose T
	Wood B
	Tonze L
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mini S
Administrator	M.Z. Silinga
Registered office	17 Main Street Komga 4950
Bankers	Standard Bank Limited
Auditors	Auditor General of South Africa

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The reports and statements set out below comprise the annual financial statements presented to the council:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and based on the financial recovery plan of the Municipality and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 72, which have been prepared on the going concern basis, were approved and signed by:

M.Z. Silinga
Administrator

Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 R
Assets			
Current Assets			
Inventories	3	-	184 246
Receivables from exchange transactions	4	6 945 872	6 149 896
Receivables from non-exchange transactions	5	6 217 167	6 799 178
VAT receivable	6	-	2 841 545
Cash and cash equivalents	7	550 317	52 952
		13 713 356	**16 027 817**
Non-Current Assets			
Investment property	8	71 543 700	71 543 700
Property, plant and equipment	9	263 772 348	268 817 721
Intangible assets	10	529	75 044
Heritage assets	11	36 000	36 000
		335 352 577	**340 472 465**
Total Assets		**349 065 933**	**356 500 282**
Liabilities			
Current Liabilities			
Other financial liabilities	12	804 349	487 267
Finance lease obligation	13	42 648	288 874
Payables from exchange transactions	14	51 835 696	40 537 636
VAT payable	47	1 852 164	-
Employee benefit obligation	15	445 000	713 000
Unspent conditional grants and receipts	16	673 903	48 606
Bank overdraft	7	-	314 657
		55 653 760	**42 390 040**
Non-Current Liabilities			
Other financial liabilities	12	-	700 048
Finance lease obligation	13	-	42 647
Employee benefit obligation	15	9 905 465	9 518 000
Provisions	17	14 071 642	9 752 795
		23 977 107	**20 013 490**
Total Liabilities		**79 630 867**	**62 403 530**
Net Assets		**269 435 066**	**294 096 752**
Accumulated surplus		269 435 066	294 821 882

* See Note 39

Statement of Financial Performance

	Note(s)	2018 R	2017 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	18	16 830 823	15 639 518
Rental of facilities and equipment	19	528 835	286 591
Licences and permits	24	1 121 695	1 411 632
Commissions received	24	51 714	46 557
Other income	20	906 292	761 163
Interest received	21	5 396 536	6 622 982
Total revenue from exchange transactions		**24 835 895**	**24 768 443**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	21 583 183	22 786 913
Transfer revenue			
Government grants & subsidies	23	59 176 904	60 832 267
Fines, Penalties and Forfeits	24	18 801	115 698
Total revenue from non-exchange transactions		**80 778 888**	**83 734 878**
Total revenue	24	**105 614 783**	**108 503 321**
Expenditure			
Employee related costs	25	(50 635 876)	(48 740 150)
Remuneration of councillors	26	(4 137 141)	(4 157 107)
Transfer payments - Other		(59 487)	(82 476)
Depreciation and amortisation	27	(17 186 049)	(21 561 781)
Finance costs	28	(7 394 732)	(2 429 850)
Lease rentals on operating lease		(506 799)	(501 443)
Debt Impairment	29	(15 860 505)	(10 237 328)
Repairs and maintenance	30	(1 792 130)	(1 356 500)
Bulk purchases	31	(8 377 501)	(8 497 041)
General expenses	32	(21 968 063)	(37 579 948)
Total expenditure		**(127 918 283)**	**(135 143 624)**
Operating (deficit) / surplus		**(22 303 500)**	**(26 640 303)**
Loss on disposal of assets and liabilities		(147 211)	(24 458 747)
Actuarial gains/losses	15	1 284 000	(53 000)
		1 136 789	**(24 511 747)**
(Deficit) / surplus for the year		**(21 166 711)**	**(51 152 050)**

* See Note 39

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Adjustments		
Prior year adjustments (refer note 39)	-	-
Restated* Balance at 01 July 2016	**345 973 932**	**345 973 932**
Changes in net assets		
Surplus / (deficit) for the year	(51 152 050)	(51 152 050)
Total changes	(51 152 050)	(51 152 050)
Opening balance as previously reported	294 096 752	294 096 752
Adjustments		
Prior year adjustments (refer note 39)	(3 262 898)	(3 262 898)
Restated* Balance at 01 July 2017 as restated*	**290 833 854**	**290 833 854**
Changes in net assets		
Deficit for the year	(21 165 837)	(21 165 837)
Total changes	(21 165 837)	(21 165 837)
Balance at 30 June 2018	**269 668 017**	**269 668 017**

* See Note 39

Cash Flow Statement

	Note(s)	2018 R	2017 R
Cash flows from operating activities			
Receipts			
Sale of goods and services		46 437 879	42 814 114
Grants		59 176 904	60 876 177
Interest income		111 022	318 819
		105 725 805	104 009 110
Payments			
Employee costs		(54 773 017)	(51 683 257)
Suppliers		(37 879 548)	(38 084 833)
Finance costs		(7 394 732)	(2 429 850)
Other cash item		-	(322)
		(100 047 297)	(92 198 262)
Net cash flows from operating activities	33	**5 678 508**	**11 810 848**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(5 045 373)	(13 569 929)
Proceeds from sale of property, plant and equipment	9	(155 570)	-
Purchase of other intangible assets	10	-	(35 106)
Proceeds from sale of other intangible assets	10	-	2
Purchases of heritage assets	11	-	(36 000)
Net cash flows from investing activities		**(5 200 943)**	**(13 641 033)**
Cash flows from financing activities			
Movement in other financial liabilities		(1 187 315)	(323 460)
Finance lease payments		449 324	-
Net finance lease liability (repaid)		(340 897)	(263 986)
Net cash flows from financing activities		**(274 539)**	**(587 446)**
Net increase/(decrease) in cash and cash equivalents		**812 022**	**(2 417 631)**
Cash and cash equivalents at the beginning of the year		(261 705)	2 155 926
Cash and cash equivalents at the end of the year	7	**550 317**	**(261 705)**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	13 230 492	4 222 595	**17 453 087**	16 830 823	**(622 264)**	1
Rental of facilities and equipment	250 000	65 000	**315 000**	528 835	**213 835**	
Licences and permits	1 488 350	-	**1 488 350**	1 121 695	**(366 655)**	2
Commissions received	199 947	(100 000)	**99 947**	51 714	**(48 233)**	3
Other income	31 847 494	(17 513 702)	**14 333 792**	906 292	**(13 427 500)**	4
Interest received	6 331 674	799 111	**7 130 785**	5 396 536	**(1 734 249)**	5
Total revenue from exchange transactions	**53 347 957**	**(12 526 996)**	**40 820 961**	**24 835 895**	**(15 985 066)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	17 000 000	7 515 988	**24 515 988**	21 583 183	**(2 932 805)**	6
Transfer revenue						
Government grants & subsidies	54 407 000	(70 000)	**54 337 000**	59 176 904	**4 839 904**	7
Fines, Penalties and Forfeits	2 544	-	**2 544**	18 801	**16 257**	
Total revenue from non-exchange transactions	**71 409 544**	**7 445 988**	**78 855 532**	**80 778 888**	**1 923 356**	
Total revenue	**124 757 501**	**(5 081 008)**	**119 676 493**	**105 614 783**	**(14 061 710)**	
Expenditure						
Employee related costs	(59 948 261)	4 593 642	**(55 354 619)**	(50 635 876)	**4 718 743**	8
Remuneration of councillors	(4 395 497)	(263 730)	**(4 659 227)**	(4 137 141)	**522 086**	9
Transfer payments - Other	-	-	**-**	(59 487)	**(59 487)**	
Depreciation and amortisation	(15 000 000)	-	**(15 000 000)**	(17 186 049)	**(2 186 049)**	10
Finance costs	(664 000)	-	**(664 000)**	(7 394 732)	**(6 730 732)**	11
Debt Impairment	(12 000 000)	1 800 000	**(10 200 000)**	(15 860 505)	**(5 660 505)**	12
Bulk purchases	(8 763 500)	-	**(8 763 500)**	(8 377 501)	**385 999**	13
General expenses	(26 271 492)	(5 731 512)	**(32 003 004)**	(21 968 063)	**10 034 941**	14
Total expenditure	**(124 743 821)**	**(1 900 529)**	**(126 644 350)**	**(127 918 283)**	**(1 273 933)**	
Operating deficit	**13 680**	**(6 981 537)**	**(6 967 857)**	**(22 303 500)**	**(15 335 643)**	
Loss on disposal of assets and liabilities	-	-	**-**	(147 211)	**(147 211)**	17
Actuarial gains/losses	-	-	**-**	1 284 000	**1 284 000**	18
Gain on non-current assets held for sale or disposal groups	212 400	(212 400)	**-**	-	**-**	15
	212 400	**(212 400)**	**-**	**1 136 789**	**1 136 789**	
Deficit before taxation	**226 080**	**(7 193 937)**	**(6 967 857)**	**(21 166 711)**	**(14 198 854)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**226 080**	**(7 193 937)**	**(6 967 857)**	**(21 166 711)**	**(14 198 854)**	

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	174 738	25 000	**199 738**	-	**(199 738)**	1
Receivables from exchange transactions	4 463 818	9 787 681	**14 251 499**	6 920 059	**(7 331 440)**	2
Receivables from non-exchange transactions	6 788 680	2 712 319	**9 500 999**	6 213 077	**(3 287 922)**	3
VAT receivable	-	1 000 000	**1 000 000**	-	**(1 000 000)**	
Consumer debtors	-	-	**-**	-	**-**	4
Cash and cash equivalents	2 155 926	880 000	**3 035 926**	550 317	**(2 485 609)**	5
	13 583 162	**14 405 000**	**27 988 162**	**13 683 453**	**(14 304 709)**	
Non-Current Assets						
Investment property	71 543 700	-	**71 543 700**	71 543 700	**-**	6
Property, plant and equipment	303 213 320	1 600 000	**304 813 320**	263 772 348	**(41 040 972)**	7
Intangible assets	113 926	-	**113 926**	529	**(113 397)**	8
Heritage assets	-	-	**-**	36 000	**36 000**	9
	374 870 946	**1 600 000**	**376 470 946**	**335 352 577**	**(41 118 369)**	
Liabilities						
Current Liabilities						
Other financial liabilities	487 267	(150 000)	**337 267**	804 349	**467 082**	10
Finance lease obligation	-	-	**-**	42 648	**42 648**	11
Payables from exchange transactions	24 860 255	1 500 000	**26 360 255**	51 835 696	**25 475 441**	12
VAT payable	-	-	**-**	1 852 164	**1 852 164**	
Employee benefit obligation	-	-	**-**	445 000	**445 000**	13
Unspent conditional grants and receipts	-	-	**-**	673 903	**673 903**	
Provisions	970 987	-	**970 987**	-	**(970 987)**	14
Consumer deposits	-	-	**-**	-	**-**	15
	26 318 509	**1 350 000**	**27 668 509**	**55 653 760**	**27 985 251**	
Non-Current Liabilities						
Other financial liabilities	1 023 508	30 000	**1 053 508**	-	**(1 053 508)**	16
Employee benefit obligation	-	-	**-**	9 905 465	**9 905 465**	
Provisions	17 755 542	1 500 000	**19 255 542**	14 071 642	**(5 183 900)**	
	18 779 050	**1 530 000**	**20 309 050**	**23 977 107**	**3 668 057**	
Total Liabilities	**45 097 559**	**2 880 000**	**47 977 559**	**79 630 867**	**31 653 308**	
Net Assets	**343 356 549**	**13 125 000**	**356 481 549**	**269 405 163**	**(87 076 386)**	
Net Assets						
Accumulated surplus						
Reserves						
Accumulated surplus	343 356 549	13 125 000	**356 481 549**	269 406 031	**(87 075 518)**	
Undefined Difference	-	-	-	(868)	(868)	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Total Net Assets	**343 356 549**	**13 125 000**	**356 481 549**	**269 406 031**	**(87 075 518)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	70 350 501	(22 625 194)	**47 725 307**	42 814 114	**(4 911 193)**	1
Grants	54 407 000	(70 000)	**54 337 000**	60 876 177	**6 539 177**	2
	124 757 501	**(22 695 194)**	**102 062 307**	**103 690 291**	**1 627 984**	
Payments						
Employee costs	(64 343 758)	4 329 912	**(60 013 846)**	(51 683 257)	**8 330 589**	
Suppliers	(35 448 992)	(4 292 500)	**(39 741 492)**	(38 084 840)	**1 656 652**	4
	(99 792 750)	**37 412**	**(99 755 338)**	**(89 768 097)**	**9 987 241**	
Net cash flows from operating activities	**24 964 751**	**(22 657 782)**	**2 306 969**	**13 922 194**	**11 615 225**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(17 714 250)	2 100 000	**(15 614 250)**	-	**15 614 250**	6
Repayment of loans from economic entities	(250 000)	-	**(250 000)**	-	**250 000**	
Net cash flows from investing activities	**(17 964 250)**	**2 100 000**	**(15 864 250)**	**-**	**15 864 250**	
Net increase/(decrease) in cash and cash equivalents	7 000 501	(20 557 782)	**(13 557 281)**	13 922 194	**27 479 475**	
Cash and cash equivalents at the end of the year	**7 000 501**	**(20 557 782)**	**(13 557 281)**	**13 922 194**	**27 479 475**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

Standards Issued and Effective:
- GRAP 1 - Presenttion of Financial Statements
- GRAP 2 - Cash Flow Statements
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 5 - Borrowing costs
- GRAP 9 - Revenue from Exchange Transactions
- GRAP 11 - Construction Contracts
- GRAP 12 - Inventories
- GRAP 13 - Leases
- GRAP 14 - Events After Reporting Date
- GRAP 16 - Investment Property
- GRAP 17 - Property, Plant and Equipment
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue From Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Cash Generating Assets
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Opertions
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - Can Base Accounting Policy on, or early adopt:
- GRAP 18 - Segment Reporting
- GRAP 20 - Related Party Disclosures

Interpretations:
- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3 - Determining whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Evironmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and are rounded to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Infrastructure	
• Tarred roads and paving	30 – 80 years
• Access roads	3 – 5 years
• Electricity	7 – 50 years
Other property, plant and equipment	
• Buildings and related items	5 - 80 years
• Recreational facilities and related items	5 - 80 years
• Halls and related items	5 - 30 years
• Parks and gardens and related items	5 - 30 years
• Plant, machinery and other equipment	5 - 25 years
• Furniture, fittings and office equipment	5 - 10 years
• Motor vehicles	5 - 10 years
Landfill sites	4 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3-7 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

1.9 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.9 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange trnsactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Long term borrowings	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.10 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.12 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.13 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.14 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

1.15 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

Accounting Policies

1.16 Commitments (continued)

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest method.

1.17 Revenue from exchange transactions (continued)

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognisd as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tarrif to each property that has improvements. The tarrifs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tarrif charges

Revenue arising from the application of approved tarrifs is recognised when the service is rendered by applying the relevant authorised tarrif. This includes the issue of licenses and permits.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement , where such terms span over more than one financial year a straight-line basis is used.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

1.18 Revenue from non-exchange transactions (continued)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Rates, including collection charges, penalties and interest

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

1.18 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Change in accounting policy due to amendments to GRAP 5 - Borrowing costs

The adoption of amendments to GRAP 5 - Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since . The effective date of the amendments were .

Borrowing costs, incurred both before and after the effective date of this amendment and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this Standard, is recognised in accordance with the municipality's previous accounting policy.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and

1.22 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations enbodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liabilitiy is recognised.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates.

These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as
part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note 49 to the Annual Financial Statements.

Comparative information is not required.

Accounting Policies

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Use of estimates

The preparation of fiancial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the processof applying the Municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.30 Contingent assets and contingent liabilities

The Municipality does not recognise contingent liabilities or contingent assets, but discloses then in the notes to the annual financial statements.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and liabilities are not recognised. Contingencies are disclosed in note 37 to the annual financial statements.

Accounting Policies

1.31 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirementsexcept to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospecively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note 39 to the financial statements.

1.32 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

	2018 R	2017 R

3. Inventories

Consumables	-	184 246

During the period the municipality took a decision to close the stores section due to financial constraints . The balance of was R223 253 was transfered to expenses

4. Receivables from exchange transactions

Trade debtors	44 866 787	35 914 031
Debt impairment	(39 826 559)	(31 917 957)
Sundry debtors	1 796 288	1 796 288
Unallocated receipts	75 940	57 496
Department of transport MVR	58 372	192 639
Sundry receipts default account	(24 956)	107 399
	6 945 872	**6 149 896**

30 June 2018

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	85 908	33 520	109 432	228 860
Residents and others	1 809 821	859 557	39 784 311	42 453 689
Industries	340 781	154 855	1 688 601	2 184 237
	2 236 510	**1 047 932**	**41 582 344**	**44 866 786**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	245 220	232 503	1 710 635	2 188 358
Refuse removal	859 346	813 426	40 392 783	42 065 555
Sundry	47 314	41 980	523 579	612 873
	1 151 880	**1 087 909**	**42 626 997**	**44 866 786**

30 June 2017

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +		Total
Government	49 848	7 723	38 663	-	96 234
Residents and others	2 084 870	864 138	31 143 590	-	34 092 598
Industries	308 848	111 672	1 304 679	-	1 725 199
	2 443 566	**983 533**	**32 486 932**	**-**	**35 914 031**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +		Total
Electricity	320 594	97 152	798 526	-	1 216 272
Refuse removal	2 088 183	877 648	31 307 582	-	34 273 413
Sundry	34 790	8 732	380 824	-	424 346
	2 443 567	**983 532**	**32 486 932**	**-**	**35 914 031**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	31 917 957	30 122 255
Provision for impairment	7 908 601	1 795 702
	39 826 558	**31 917 957**

Notes to the Annual Financial Statements

	2018 R	2017 R

5. Receivables from non-exchange transactions

	2018 R	2017 R
Fines	210 698	210 698
Assessment rates	53 357 769	45 987 877
Debt impairment	(47 351 300)	(39 399 397)
	6 217 167	**6 799 178**

30 June 2018

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	55 622	15 310	485 718	556 650
Residents and others	2 823 226	1 267 746	43 924 503	48 015 475
Industries	353 338	155 953	4 284 618	4 793 909
	3 232 186	**1 439 009**	**48 694 839**	**53 366 034**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Rates	1 739 090	1 493 188	50 133 757	53 366 035

30 June 2017

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	72 140	25 248	632 488	729 876
Residents and others	3 326 912	1 302 031	36 869 454	41 498 397
Industries	359 613	143 530	3 256 461	3 759 604
	3 758 665	**1 470 809**	**40 758 403**	**45 987 877**

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2018 R	2017 R
Opening balance	39 399 398	36 999 504
Provision for impairment	7 947 654	2 299 394
Impairement for Traffic fines	105 349	100 500
	47 452 401	**39 399 398**

During the period errors noted have been correct under the comparitive refer to note 39 .

6. VAT receivable

	2018 R	2017 R
VAT	-	2 841 545

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C.

7. Cash and cash equivalents

Cash and cash equivalents consist of bank balances for current accounts and call deposit accounts:

	2018 R	2017 R
Bank balances	555 574	-
Short-term deposits	10 858	52 952
Bank overdraft	-	(314 657)
	566 432	**(261 705)**
Current assets	550 317	52 952
Current liabilities	-	(314 657)
	550 317	**(261 705)**

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
Standard Bank-20870963 Primary Bank	696 075	37 208	64 333	555 574	(314 657)	184 541
Standard Bank-285973452	49	4 990	16 415	(16 917)	34 901	16 415
Standard Bank -388528672-004	724	2 948	4 247	724	2 948	4 247
Standard Bank-388527544-402	-	-	4 394	-	-	4 394
Standard Bank-388529768-402	491	5 698	1 937 218	491	5 698	1 937 218
Standard Bank-388528672-002	8 617	8 540	8 931	8 617	8 540	8 522
Standard Bank-388523786-002	977	865	4 757	977	-	589
Total	**706 933**	**60 249**	**2 040 295**	**549 466**	**(262 570)**	**2 155 926**

8. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	71 543 700	-	71 543 700	71 543 700	-	71 543 700

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	71 543 700	71 543 700

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	71 543 700	71 543 700

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	84 201 289	-	84 201 289	84 201 289	-	84 201 289
Buildings	137 834 952	(69 915 439)	67 919 513	130 231 608	(66 901 285)	63 330 323
Infrastructure	241 559 005	(153 378 641)	88 180 364	240 129 819	(140 606 394)	99 523 425
Other property, plant and equipment	11 007 925	(7 046 199)	3 961 726	11 529 871	(6 572 363)	4 957 508
Work in progress	16 933 145	-	16 933 145	13 992 612	-	13 992 612
Finance lease assets	1 443 220	(1 423 573)	19 647	1 443 220	(1 273 181)	170 039
Landfill site asset	9 633 912	(7 077 248)	2 556 664	9 633 912	(6 991 387)	2 642 525
Total	**502 613 448**	**(238 841 100)**	**263 772 348**	**491 162 331**	**(222 344 610)**	**268 817 721**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	84 201 289	-	-	-	-	-	84 201 289
Buildings	63 330 343	7 603 324	-	-	-	(3 014 154)	67 919 513
Infrastructure	99 523 427	1 479 897	(51 826)	-	(31 103)	(12 740 031)	88 180 364
Other property, plant and equipment	4 957 508	168 399	(690 344)	-	563 856	(1 037 693)	3 961 726
Work in progress	13 992 612	12 024 888	-	(9 084 355)	-	-	16 933 145
Finance lease asset	170 039	-	-	-	-	(150 392)	19 647
Landfill site asset	2 642 525	-	-	-	-	(85 861)	2 556 664
	268 817 743	**21 276 508**	**(742 170)**	**(9 084 355)**	**532 753**	**(17 028 131)**	**263 772 348**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	84 201 289	-	-	-	-	-	84 201 289
Buildings	64 326 076	13 838 054	11 743 792	(17 448 596)	(5 874 204)	(3 254 799)	63 330 323
Infrastructure	118 153 024	11 068 029	(5 234)	(29 983 674)	17 135 819	(16 844 539)	99 523 425
Other property, plant and equipment	5 994 862	274 498	(204 000)	-	-	(1 107 852)	4 957 508
Work in progress	25 757 481	13 141 214	-	(24 906 083)	-	-	13 992 612
Finance lease assets	360 428	-	-	-	-	(190 389)	170 039
Landfill site asset	2 732 741	-	-	-	-	(90 216)	2 642 525
	301 525 901	**38 321 795**	**11 534 558**	**(72 338 353)**	**11 261 615**	**(21 487 795)**	**268 817 721**

Assets subject to finance lease (Net carrying amount)

Finance lease assets	19 647	170 039

9. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	205 992	(205 463)	529	205 992	(130 948)	75 044

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	75 044	(74 515)	529

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Impairment loss	Total
Computer software	113 926	35 106	(2)	(73 986)	75 044

11. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Art Collections, antiquities and exhibits	36 000	-	36 000	36 000	-	36 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Art Collections, antiquities and exhibits	36 000	36 000

Change in accounting estimate

[Disclose the nature and effect of a change in an accounting estimate in the current period or subsequent periods]

The nature and effect of change(s) in an accounting estimate(s) is as follows:

(Insert text)

Notes to the Annual Financial Statements

	2018 R	2017 R
12. Other financial liabilities		
At amortised cost		
Long term borrowings	804 349	1 187 315
The DBSA loan bears interest at 13% and is redeemable on 31 March 2019.		
Non-current liabilities		
At amortised cost	-	700 048
Current liabilities		
At amortised cost	804 349	487 267

13. Finance lease obligation

	2018 R	2017 R
Minimum lease payments due		
- within one year	42 647	384 913
	42 647	384 913
less: future finance charges	-	(53 392)
Present value of minimum lease payments	**42 647**	**331 521**
Present value of minimum lease payments due		
- within one year	-	288 874
- in second to fifth year inclusive	-	42 647
	-	**331 521**
Non-current liabilities	-	42 647
Current liabilities	42 648	288 874
	42 648	**331 521**

It is municipality policy to lease certain equipment under finance leases.

The lease terms of finance lease agreements vary from three to five years.

Interest rates are fixed at the contract date. Leases escalate at 10% p.a and no arrangements have been entered into for contigent rent. The interest rate implicit used ranges between 24.56% - 49.14% per annum.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

Depreciation and finance charges relating to leased assets are included in the total depreciation and finance charges respectively.

14. Payables from exchange transactions

	2018 R	2017 R
Trade payables	25 416 994	24 976 316
Payments received in advance	6 139 304	6 442 733
Accrued leave pay	3 259 509	2 830 066
Accrued bonus	1 348 936	1 223 805
Deposits received	403 136	396 182
Salary suspense account	14 588 081	4 153 300
Retentions	679 736	515 234
	51 835 696	**40 537 636**

Notes to the Annual Financial Statements

	2018 R	2017 R

15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

	2018 R	2017 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(10 350 465)	(10 231 000)
Asset not recognised	-	-
	(10 350 465)	**(10 231 000)**
Non-current liabilities	(9 905 465)	(9 518 000)
Current liabilities	(445 000)	(713 000)
	(10 350 465)	**(10 231 000)**

Changes in the present value of the defined benefit obligation are as follows:

	2018 R	2017 R
Opening balance	10 231 000	8 196 000
Contributions by plan participants	524 000	344 000
Discount rate differences	(615 000)	737 000
Benefits paid	(364 534)	(222 000)
Participant changes	(490 000)	(13 000)
Other	580 999	-
Net expense recognised in the statement of financial performance	484 000	1 672 000
	10 350 465	**10 714 000**

Net expense recognised in the statement of financial performance

	2018 R	2017 R
Current service cost	713 000	1 100 000
Interest cost	1 055 000	519 000
Actuarial (gains) losses	(1 284 000)	53 000
	484 000	**1 672 000**

Key assumptions used

Assumptions used at the reporting date:

	2018	2017
Discount rates used	9.05	10.5%
Consumer price inflation	- %	8,11 %
Expected rate of return on reimbursement rights	- %	9,11 %
Actual return on reimbursement rights	- %	1,27 %

The basis used to determine the discount rates and CPI assumptions is the nominal and real zero curves as at 30 June 2018 supplied by the JSE.

15. Employee benefit obligations (continued)

Other assumptions

Mortality rate

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result due to higher and lower mortality rates by increasing and decreasing mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	8 492 000	7 816 000	7 279 000
Interest Cost	761 000	699 000	651 000
Service Cost	648 000	595 000	554 000
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total Accrued Liability	6 630 000	7 816 000	9 319 000
Interest Cost	592 000	699 000	836 000
Service Cost	478 000	595 000	751 000
	-	-	-

Long service award inflation:

	1% decrease-normal salary inflation R	**30 June 2018 valuation basis R**	**1% increase-normal salary inflation R**
Defined benefit obligation	1 994 000	2 140 000	2 303 000
Interest cost	169 000	182 000	197 000
Service cost	304 000	327 000	353 000

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

	2018 R	2017 R

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	2 070	48 606
Finance Management Grant	2 136	-
other	-	-
EPWP Grant	63	-
Intergrated National electrification Programme (INEP)	669 634	-
	673 903	**48 606**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

17. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	9 752 795	4 318 847	14 071 642

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	9 167 022	585 773	9 752 795

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. The Municipality is still using the existing landfill site for waste disposals because the planned arrangement of utilising the ADM's site which is in Butterworth did not continue for long as planned. However the Municipality had applied for the renewal of the licence for the existing lanfill site from the Department of Economic Development and Environmental Affairs and Tourism to continue using it as a short-term measure, but that has not been granted yet due to long processes that are followed by the Department.

18. Service charges

Sale of electricity	6 944 663	6 381 511
Refuse removal	9 886 160	9 258 007
	16 830 823	**15 639 518**

Unspent Conditional Grants and Receipts		
Extended Public WorksProgramme	63	-
Financial Management Grant	2 137	-
Intergrated National Electrification Programme	669 634	-
Municipal Infrastructure Grant	2 070	48 606
	673 904	**48 606**

Notes to the Annual Financial Statements

	2018 R	2017 R

19. Rental of facilities and equipment

Premises		
Premises	416 745	175 655
Facilities and equipment		
Rental of facilities	112 090	110 936
	528 835	**286 591**

20. Other income

Building plan fees	167 312	159 164
Clearance fees	14 487	13 749
Sundry revenue	335 208	1 420 324
Basic electricity	108 502	117 198
Connection fees - electricity	276 813	173 469
Burial fees	3 964	2 300
Enchroachments	-	482
	906 286	**1 886 686**

21. Interest received

Interest revenue		
Interest from investments	111 022	318 819
Interest charged on trade and other receivables	5 285 514	6 304 163
	5 396 536	**6 622 982**

22. Property rates

Rates received

Property rates	24 368 828	23 710 280
Less: Discounts allowed	(2 785 645)	(923 367)
	21 583 183	**22 786 913**

Valuations

Commercial	28 310 000	28 310 000
Residential	3 049 373 414	3 049 373 414
Schools	42 630 000	42 630 000
Small holdings and farms	129 082 000	129 082 000
State	208 279 130	208 279 130
Vacant	922 995 873	922 995 873
	4 380 670 417	**4 380 670 417**

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions

Rates are levied on a monthly basis.

Notes to the Annual Financial Statements

	2018 R	2017 R

23. Government grants and subsidies

Unconditional grants		
Equitable share	34 996 606	39 452 000
Library Subsidy	410 000	410 000
IEC Election Grant	875	875
Treasury Grant	5 464 327	1 931 302
	40 871 808	41 794 177
Conditional grants		
Municipal Infrastructure Grant	11 368 930	12 023 394
Finance Management Grant	2 342 863	2 010 000
Expanded Public Works Programme	1 262 937	1 000 064
Intergrated Electrification Programme	3 330 366	4 004 632
	18 305 096	19 038 090
	59 176 904	**60 832 267**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	40 871 808	41 794 177
Unconditional grants received	18 305 096	19 038 090
	59 176 904	**60 832 267**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. There are no conditions attached to the equitable share and as such is recognised as revenue when received.

All registered indigents receive a monthly subsidy o f 50 KW/H of electricity and 100% subsidation on rates and refuse R - (2017: R which is funded from the Equitable Share grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	48 606	-
Current-year receipts	11 371 000	12 072 000
Conditions met - transferred to revenue	(11 368 930)	(12 023 394)
Grant deducted from equitable Share	(48 606)	-
	2 070	**48 606**

Conditions still to be met - remain liabilities (see note 16).

The grant is allocated for the construction of infratructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Notes to the Annual Financial Statements

	2018 R	2017 R

23. Government grants and subsidies (continued)

Intergrated National Electrification Programme

Balance unspent at beginning of year	-	4 632
Current-year receipts	4 000 000	4 000 000
Conditions met - transferred to revenue	(3 330 366)	(4 004 632)
	669 634	**-**

Conditions still to be met - remain liabilities (see note 16).

The Intergrated National Electrification Programme Grant is provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Financial Management Grant

Current-year receipts	2 345 000	2 010 000
Conditions met - transferred to revenue	(2 342 863)	(2 010 000)
Unspent	(2 137)	-
	-	**-**

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

EPWP Grant

Balance unspent at beginning of year	-	64
Current-year receipts	1 263 000	1 000 000
Conditions met - transferred to revenue	(1 262 937)	(1 000 064)
	63	**-**

Conditions still to be met - remain liabilities (see note 16).

This program is aimed at providing poverty and income relief through the creation of temporary work opportunities.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Revenue

Service charges	16 830 823	15 639 518
Rental of facilities and equipment	528 835	286 591
Licences and permits	1 121 695	1 411 632
Commissions received	51 714	46 557
Other income	906 292	761 163
Interest received	5 396 536	6 622 982
Property rates	21 583 183	22 786 913
Government grants & subsidies	59 176 904	60 832 267
Fines, Penalties and Forfeits	18 801	115 698
	105 614 783	**108 503 321**

Notes to the Annual Financial Statements

	2018 R	2017 R

24. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	16 830 823	15 639 518
Rental of facilities and equipment	528 835	286 591
Licences and permits	1 121 695	1 411 632
Commissions received	51 714	46 557
Other income	906 292	761 163
Interest received	5 396 536	6 622 982
	24 835 895	**24 768 443**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	21 583 183	22 786 913
Transfer revenue		
Government grants & subsidies	59 176 904	60 832 267
Fines, Penalties and Forfeits	18 801	115 698
	80 778 888	**83 734 878**

	2018 R	2017 R

25. Employee related costs

Basic	35 921 792	34 344 876
Bonus	2 584 979	2 532 313
Medical aid - company contributions	2 862 727	2 211 678
UIF	252 213	255 278
SDL	410 059	389 974
Other payroll levies	18 224	19 442
Leave pay provision charge	429 443	668 053
Pension	4 770 387	4 646 763
Travel, motor car, accommodation, subsistence and other allowances	1 272 251	1 231 892
Overtime payments	808 638	989 974
Long-service awards	-	180 000
Acting allowances	799 499	649 919
Housing benefits and allowances	505 664	619 988
Post employment benefits expense - Defined benefit	-	-
	50 635 876	**48 740 150**

Include in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager

Annual Remuneration	269 311	139 536
Car Allowance	13 258	13 258
Performance Bonuses	-	120 000
Contributions to UIF, Medical and Pension Funds	-	112 714
Acting Allowance	216 532	125 936
	499 102	**1 214 681**

Remuneration of Chief Financial Officer

Annual Remuneration	741 718	904 849
Car Allowance	76 012	18 000
Contributions to UIF, Medical and Pension Funds	-	-
Acting Allowance	24 462	-
	-	68 516
	842 192	**991 365**

Additional text

Remuneration of Director: Strategic Services

Annual Remuneration	522 077	-
Car Allowance	118 019	-
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	-	-
Other allowances	-	-
	640 096	**-**

The Strategic Services Director was acting as Municipal Manager for 8 months in the current financial period.

Remuneration of Director: Technical Services

Annual Remuneration	506 154	673 167
Car Allowance	100 017	161 545
Contributions to UIF, Medical and Pension Funds	-	115 788

Notes to the Annual Financial Statements

	2018 R	2017 R

25. Employee related costs (continued)

Other	-	40 866
	606 171	**991 366**

Remuneration of Director - Corporate Services

Acting allowance	524 077	80 376
Car Allowance	116 019	-
	640 095	**80 376**

26. Remuneration of councillors

Mayor/Speaker	736 165	612 183
Councillors	2 119 279	2 523 456
Councillors' allowances	996 825	982 286
	3 852 269	**4 117 925**

Remuneration of Mayor (Speaker) - N Tekile
Heading
Salary

	-	88 414
	-	16 826
	-	**105 240**

Remuneration of Mayor (Speaker) - L.D. Tshetsha

Salary	532 324	443 603
Allowances	203 841	168 580
	736 165	**612 183**

Chief Whip - Ndabambi-Gavumente L

Salary	166 872	206 673
Allowances	82 023	85 670
	248 895	**292 343**

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

In-kind benefits

The Mayor is a full-time councillor. The mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor holds the position of the speaker as well.

27. Depreciation and amortisation

Property, plant and equipment	17 035 657	21 487 795
Intangible assets	150 392	73 986
	17 186 049	**21 561 781**

Notes to the Annual Financial Statements

	2018 R	2017 R

28. Finance costs

Non-current borrowings	119 633	173 945
Finance leases	1 901 252	758 132
Interest from fair value adjustments	5 373 847	1 497 773
	7 394 732	**2 429 850**

29. Debt impairment

Debt impairment	15 860 505	4 195 595
Bad debts written off	-	6 041 733
	15 860 505	**10 237 328**

30. Repairs and Maintenance

Repairs and maintenance on different class of assets		
Land and buildings	91 803	263 831
Infrastructure -electricity	849 290	225 831
Infrastructure-road transport	-	273 701
Sanitation	25 423	138 648
Infrastructure other	193 854	14 000
Other Assets	-	17 152
Community assets	117 948	17 925
Specialised vehicles	513 811	405 412
	1 792 129	**1 356 500**

31. Bulk purchases

Electricity	8 377 501	8 497 041

Notes to the Annual Financial Statements

32. General expenses

	2018 R	2017 R
Advertising	537 936	664 356
Assets expensed	5 320	96 198
Auditors remuneration	3 219 547	3 292 092
Bank charges	409 098	214 173
Cleaning	42 634	74 737
Commission paid	89 279	77 600
Computer expenses	-	11 363
Conferences and seminars	121 420	156 873
Consulting and professional fees	4 934 589	6 620 883
Discount allowed	-	8 555 754
Electricity	202 150	168 696
Entertainment	72 102	202 168
Finance Management Grant	708 537	422 017
Free basic electricity	1 077 661	1 252 041
Fuel and oil	1 033 777	1 079 707
Insurance	350 226	377 441
LED projects	353 760	401 032
Legal expenses	176 614	2 011 589
Life saving services	236 460	296 487
Magazines, books and periodicals	201 601	238 809
Membership fees	46 127	105 899
Motor vehicle expenses	147 163	406 301
Other expenses	169 865	1 870 858
Postage and courier	331 875	322 662
Project maintenance costs	105 729	170 296
Promotions and sponsorships	5 343	85 846
Protective clothing	87 887	241 480
Refuse	54 121	74 310
Software expenses	667 990	606 171
Staff welfare	-	112 060
Subscriptions and membership fees	764 120	523 000
Telephone and fax	2 483 387	3 191 275
Training	223 356	214 292
Travel - local	228 585	437 979
Valuaton costs	332 683	320 318
Ward Committee expense	7 000	86 222
Ward Council expense	77 918	251 814
Water	2 462 203	2 345 149
	21 968 063	**37 579 948**

Notes to the Annual Financial Statements

	2018 R	2017 R

33. Cash generated from operations

	2018	2017
Deficit	(21 166 711)	(57 184 197)
Adjustments for:		
Depreciation and amortisation	17 186 049	21 561 781
Loss on sale of assets and liabilities	147 211	24 458 747
Acturial (gain)/loss	(1 284 000)	53 000
Landfill site non cash movement	4 318 847	585 773
Bad debts written off	-	6 041 733
Finance costs: provisions	(7 394 732)	-
Debt impairment	15 860 505	10 237 328
Movements in employee benefit obligation	119 465	1 214 000
Prior adjustment	(3 262 898)	290 512
Changes in working capital:		
Inventories	184 246	(9 508)
Receivables from exchange transactions	795 976	792 525
Debt Impairment	(15 860 505)	(10 237 328)
Other receivables from non-exchange transactions	(582 011)	(2 478 603)
Payables from exchange transactions	11 298 060	20 211 041
VAT	4 693 709	(3 769 866)
Unspent conditional grants and receipts	625 297	43 910
	5 678 508	**11 810 848**

34. Financial instruments disclosure

Categories of financial instruments

30 June 2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	6 945 872	6 945 872
Other receivables from non-exchange transactions	-	6 217 167	6 217 167
Cash and cash equivalents	550 317	-	550 317
	550 317	**13 163 039**	**13 713 356**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	804 349	804 349
Trade and other payables from exchange transactions	52 167 264	52 167 264
Taxes and transfers payable (non-exchange)	1 852 164	1 852 164
	54 823 777	**54 823 777**

30 June 2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	6 149 896	6 149 896
Other receivables from non-exchange transactions	-	6 788 680	6 788 680
Consumer debtors	-	2 841 545	2 841 545
Cash and cash equivalents	52 952	-	52 952

Notes to the Annual Financial Statements

	2018 R	2017 R

. Financial instruments disclosure (continued)

	52 952	**15 780 121**	**15 833 073**

Financial liabilities

	At fair value	At amortised cost	Total
Other financial liabilities	-	1 187 315	1 187 315
Trade and other payables from exchange transactions	-	40 869 204	40 869 204
Taxes and transfers payable (non-exchange)	-	48 606	48 606
Bank overdraft	314 657	-	314 657
	314 657	**42 105 125**	**42 419 782**

35. Auditors' remuneration

	2018 R	2017 R
Fees	3 219 547	3 292 092

36. Commitments

Authorised expenditure

	2018 R	2017 R
Already contracted for and authorised by accounting officer		
• Construction Contracts	2 271 137	8 130 704
• Community Service Contracts	102 620	33 840
• Other	9 121 034	17 542 611
	11 494 791	**25 707 155**

	2018 R	2017 R
Total capital commitments		
Already contracted for but not provided for	-	25 707 155
Contracted for and authorised by accounting officer	11 494 791	-
	11 494 791	**25 707 155**

This committed expenditure relates to plant and equipment and other expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant funds.

37. Contingencies

	2018 R	2017 R
Contingent liabilities		
Jet Vest/ Great Kei Municipality- High court application to set aside deed of sale	1 000 000	1 000 000
Great Kei vs loden- Set down for trial	400 000	400 000
Nogoduka vs Great Kei - Judgement rescinded	-	100 000
VAn Dalen- Labour matter , former employee is challenging his suspension in Grahamstown High Court- Case finalised	-	496 000
Sars vs Great Kei- appeal lodged by Municipality for VAT matter.- Appeal granted	-	2 032 064
	1 400 000	**4 028 064**

Uncertainty exists as to the timing or amount of these contingent liabilities and assets.

Notes to the Annual Financial Statements

	2018	2017
	R	R

38. Related parties

Relationships

Councillors, executive management and staff received salaries for services rendered relating to their employment within the Municipality, refer notes 25 and 26. No other related party transactions took place during the year.

39. Prior year adjustments

Property, plant and equipment

During the verification process of infrastructure assets in current period, it was noted that certain assets components were identified and verified which were not included in the asset register in prior years. Therefore this adjustment was needed to correct the errors and account for the omitted component of property, plant and equipment .

Further more some adjustments relating to VAT have been effected due to revised assessment

The opening balances of PPE items were restated based on a comprehensive review performed.

Accumulated surplus

During the period, errors were noted relating to the prior periods. The property, plant and equipment errors noted affected the prior year accumulated surplus balance to be incorrect. The balance of the prior year accumulated surplus has been corrected by the effects of the correction of prior period errors as detailed below.

Statement of financial position

Property Plant and Equipment		
Other 2	-	-
Opening balance previously stated	269 894 503	-
Decrease in WIP due to retentions incorrectly added	(331 568)	-
Increase in Roads due to components previously omitted	159 443	-
	-	-
	-	-
	-	-
	-	-
	-	-
Accumulated surplus		
The Asset register was update for new components found	(56 013)	-
Vat assessment for prior years	2 014 539	-
Interest write off on AG debt	(707 555)	-
Interest for SARS debt raised on revised assessment	523 229	-
Input vat on creditors paid in previous years	1 616 110	-
Statement of Financial Performance	1	-
Depreciation expense	20 084	17 165
Statement of Financial Position	1	-
Retentions adjustment	(331 568)	-
Adjustment to WIP	(264 872)	-
Adjustment to buildings	(175 851)	-
Adjustment to infrastructure assets	159 443	-
WIP	103 431	3 422
WIP	-	109 155
	2 900 979	**129 742**

Statement of Financial Performance

Notes to the Annual Financial Statements

Figures in Rand

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the finance department with the assistance of operating devisions, under policies approved by the accounting officer.

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of financial assets respresent the Municipality's maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Trade and other receivables from exchange transaction	-	6 149 896
Receivables from exchange transactions	-	6 788 680
Cash and cash equivalents	550 317	52 952
Bank overdraft	-	(314 657)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Municipality is exposed to market risk through interest rate risk.

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The Municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 12 to the annual financial statements.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of Prime plus 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 7 to the annual financial statements.

41. Going concern

Material uncertainty on the going concern assumption
The management of the municipality has assessed the financial status of the municipality and ascertained that it is unable to meet its obligations timeously due to cash flow constraints. However, management is confident that the municipality will continue with its operations in the foreseeable future, given that we are a government institution with legislated funding that enables us to provide services to the communities. Below is our assessment of the current status:
• Current liabilities exceeded our current assets by R41,7 million, however the total assets exceed the total liabilities.
• A deficit has been realised in the current year by R21.1 million.
Appropriateness of going concern assumptions:
These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. However a material uncertainty does exist as we may be unable to realise our assets and discharge our liabilities in the normal course of business.
The appropriateness of the going concern assumption is based on the following short term measures that will be undertaken in the next twelve months to resolve the situation described above as a result the Provincial Executive Committee invoked Section 139(b)(c) of the Municipal Systems Act and resolved to put the Municipality under administration subsequently and administartor was seconded to the Municipality by the Department of Co-operative Governance and Traditional Affairs:
•A financial recovery plan has been developed and adopted by council.
• The financial recovery plan seeks to address the root causes of the financial situation over the term of the current council and beyond.
• The amount gazetted for grants in will be received in full, to the value of R62 million.

42. Events after the reporting date

The Mayor/Speaker of the Municipality resigned as a Councillor in August 2018. An estimate of the financial effect of the resignation cannot be determined. The Municipality is currently under administration as per 139 1(b) and(c) of the Municipal Systems Act .No events having financial implications are requiring disclosure in the annual financial statements occurred subsequent to 30 June 2018

43. Unauthorised expenditure

Opening Balance	38 345 650	10 087 564
Unauthorised expenditure for the year	18 695 885	28 258 086
	57 041 535	**38 345 650**

Incident - this is mainly due to inadequate budgeting and monitoring of expenditure. These amounts may not be recoverable as they relate to non-cash expenditure items which are provision for bad debts and the transfer of assets to BCMM, there is also an over payment on legal costs which the municipality may recover.

44. Fruitless and wasteful expenditure

Opening Balance	661 856	29 487
Fruitless and wasteful expenditure in the current yeaar	1 849 228	632 369
	-	-
	2 511 084	**661 856**

Incident - this is mainly due to interest and penalties charged because of late payments of suppliers.

45. Irregular expenditure

Opening balance	14 055 418	12 501 980
Add: Irregular Expenditure - current year	312 908	1 553 438
	14 368 326	**14 055 418**

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviation in terms of Clause 36(1)(a)	Corporate Services	Technical and Community Services	Budget and Treasury Office	Strategic Department	Total
Clause 36(1)(a)(v) Impractical or impossible	-	-	-	56 257	56 257
Clause 36(1)(a)(ii) Single Provider	86 027	119 314	-	-	205 341
Clause 36(1)(a)(i) Emergency	-	32 956	-	-	32 956
	86 027	**152 270**	**-**	**56 257**	**294 554**

Notes to the Annual Financial Statements

Figures in Rand

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	250 000	-
Current year subscription / fee	658 310	500 000
Amount paid - current year	(240 870)	(250 000)
	667 440	**250 000**

Distribution losses

Distribution losses	1 203 427	1 918 023

	-	-
Electricity distribution losses in units		
Purchases	8 375 747	8 629 453
Own use	-	-
Pre-paid consumer electricity sold	(4 432 789)	(4 222 526)
Conventional Consumer billed	(2 739 530)	(2 428 517)
	1 203 428	1 978 410

	-	-
Units purchased during the year	8 375 747	8 629 453
Units sold during the year	7 172 319	6 651 043
	1 203 428	**1 978 410**

Rand per unit	1,26	1,17
Cost in Rands	0,97	0,98
	-	-

Audit fees

Opening balance	3 545 336	2 024 549
Current year subscription / fee	3 670 578	3 752 985
Amount paid - current year	(793 408)	(300 896)
Treasury grant	(5 903 472)	(1 931 302)
	519 034	**3 545 336**

PAYE and UIF

Opening balance	2 222 651	507 976
Current year subscription / fee	7 738 974	7 189 670
Amount paid - current year	(2 478 438)	(5 474 995)
	7 483 187	**2 222 651**

Pension and Medical Aid Deductions

Opening balance	2 861 403	829 118
Current year subscription / fee	11 360 450	10 507 349
Amount paid - current year	(10 650 394)	(8 475 064)
	3 571 459	**2 861 403**

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	-	2 841 545
VAT payable	1 852 164	-
	1 852 164	**2 841 545**

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C. .

48. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.

49. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

Revenue from exchange transactions

1. Service Charges – are lower than they were anticipated by **R 622 264** and this is due to increase in indigent subsidy granted.

2. Licenses and permits are budgeted for at **R1 488 350**, the actual received for this service is **R 1 121 695** which is **R 366 655** less than it was budgeted to be received. This is due to reduction of classes for drivers licence testing and learners testing.

3. Commission received – the budget for commission was anticipated more than the amount received.

4. Other income received is below what was budgeted by R **13 595 087** due to over budgeting on some of items under this vote i.e sale of municipal residential plots amounting to **R9 000 000** and bad debts recovered had no or minimal movement during the year.

5. Interest received – Interest has been over budgeted by **R1 734 249**, but could not be realised due to financial constraints as the municipality did not have surpluse funds to invest.

Revenue from non-exchange transactions

6. Property rates are over budget by **R2 932 805** and this will be rectified to equal total billed for the year in 2018/19 FY

7. Government Grants and subsidies, under budgeted due to grants that are not gazetted e. g Treasury payment of **R5 464 327** toward AG debt on behalf of the municipality. Property rates are over budget by **R213 087** which is only 1% difference from revenue received,

Expenditure

8. Personnel costs are **R 4 718 743** below budget due to the higher than expected vacancy rate during the period. There were also vacant funded positions that were not filled during this period due to cash flow constraints..

9. Remuneration of councillors is **R 5 374** over budget, the variance is only **1%** of the budgeted amount..

10. Depreciation and amortisation was under budgeted by **R2 107 001.** .

49. Budget differences (continued)

11. Finance costs are **R 6 730 732** under budget, this is due to finance charges on fair value adjustments and finance leases

12. Bad debts written off are **R5 660 505** under budget, municipality has anticipated less on this item due to high rate of non-payment o creditors.

13. Bulk electricity is **R385 999** over budget, this is due to lower than expected usage of electricity during the year.

14. General Expenses are **R10 034 941** below budget, due to a lower than expected expenditure during the year caused by cash flow problems, but the increase is due to accruals raised at year end.

15. Loss on disposal of assets and liabilities is **R126 448** over budget, this item has not been budgeted for.

Statement of Financial Position

Assets

1. Inventories – the municipality has written off the stores balance due to cash flow constraints.

2. Receivables from exchange transactions – are below budget due to debt impairment caused by low collection rate.

3. Receivables from non-exchange transactions - are below budget due to debt impairment caused by low collection rate.

4. Consumer debtors –is split between exchange and non-exchange transations therefore there is no movement

5. Cash and cash equivalent is over budget by R 2 485 609 due to cash flow constraints..

6. Investment properties – The municipality updated its asset register and there were no movements in investment properties.

7. Property, Plant & Equipment – These were over budgeted by R39 884 503

Liabilities

Current Liabilities

10. Other Financial Liabilities (actual is over budget): The difference is due to write off of long term portion to short term portion.

11. Finance lease obligation – there was no budget for leases.

12. Payable from exchange transactions - Payable from exchange increased because the municipality cannot meet its obligations on time due to cash flow problems.

13. Employee benefit obligation – not budgeted for, the obligation was not considered during the budget process..

14. Provisions, there are no movements in the provisions during the year.

15. Consumer deposits – there is no movement during the year.

Non-Current Liabilities

49. Budget differences (continued)

16. Other financial liabilities – there is no movement, the balance was transferred to short term portion of loan.

17. Finance lease obligation and employee benefit obligation – not budgeted for during budget

process year.

Cash Flow Statement

1. Sale of goods and services – actual is less than budget, there is a high rate of non – payments of municipal accounts by customers..

2. Grants - were received in full during the year, however the difference is due to subsidy from Treasury.

3.Employee costs – is over budget due non – filling of funded vacant posts which are as a result of cash flow constraints..

4. Suppliers – Actual is lower than budget because of cash flow constraints.

5. Finance costs – Actual is over budget due to finance costs charged on late payment of DBSA loan.

6. Purchase of Property Plant and Equipment – Actual is less than budget due to financial constraints the municipality experienced during the year..

8. Repayment of other financial liabilities – actual was lower than budget.

50. Other financial assets

51. Consumer debtors disclosure

52. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

The main Municipal building burnt in May 2018. The case is still under investigation and the insurance claim has been submitted.

53. Acquisitions with a view to its subsequent disposal

54. Change in estimate

Property, plant and equipment

The useful life of various Movable assets was estimated in 2015 to be 7 years. In the current period management have revised their estimate to 10 years. The effect of this revision has decreased the depreciation charges for the current and future periods R -

The change in estimates for usefull life of Property Plant and Equipment will result in a decrease of R 1763 823…..

The change is as follows : Infrastructure Assets- R1 707 722 , Buildings R18 664, Movable assets R37 437 is